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MEMORANDUM FOR:

SUBJECT : Developments in North Korean
Petroleum Industry

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1. Attached is the information you requested on
developments in the North Korean petroleum industry.
Any further questions should be addressed to

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Chief, Resources Branch
China Division, OER

Attachment
A/S

Distribution: (S-5649)

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North Korea Petroleum DevelopmentsRecent Developments

1. Prior to 1973 North Korean needs for petroleum products were met almost exclusively by imports. Production at the small synthetic petroleum facility at the Aoji Coalfield (an estimated 20,000 tons annually) has never been a significant component of total supply. Events have occurred this year to change the nature of North Korea's petroleum dependency. In mid-1973 an oil refinery constructed by the Soviets began operation at Unggi, in the far northeastern corner of the country. At full capacity it will process 2 million tons of crude oil annually, approximately twice current domestic needs. As production at Unggi grows, the composition of North Korea's petroleum imports will change drastically: whereas imports in the past have consisted solely of petroleum products,* in future years petroleum imports will consist almost entirely of crude oil. Crude for Unggi must be imported since North Korea produces no natural crude oil. Reports of oil discoveries in the Pyongyang area remain unsubstantiated. Shipments of crude oil to North Korea in 1973 have come both from the Soviet Union and from China.

2. Despite the fact that Unggi's annual output will exceed domestic needs for the next few years, the North Koreans since 1970 have approached firms in several countries (France, Iraq, Japan, and Italy) about the construction of a second refinery and a petrochemical complex to be located in the Pyongyang area. Thus far no firm has shown serious interest, but a reported early 1973 visit to Pyongyang by Italian petroleum industry representatives may be the harbinger of further, more substantive negotiations.

*. Very small quantities of crude oil may have been imported for use as boiler fuel.

Imports

3. Historically the principal source of petroleum products for North Korea has been the Soviet Union. In 1971 it is estimated that of approximately 1 million tons of petroleum imports, perhaps 850-900,000 tons were from the USSR. As production at Unggi approaches full capacity, the North Koreans are likely to import increasing amounts of crude oil from China (especially) and the Middle East (perhaps Iraq), with imports from the Soviet Union increasing only slightly, or perhaps even declining. In the relatively near future the North Koreans should be producing most of the petroleum products which they consume. They will remain highly dependent upon other countries for crude oil supplies and select high-technology petroleum products which they themselves are unable to manufacture.

4. For an appreciation of the changes that are taking place, a brief history of North Korean consumption (and therefore of imports) of petroleum is useful. The volume of petroleum imports from the USSR averaged about 415,000 tons annually during 1964-67. In 1968 petroleum imports from the Soviet Union jumped to 714,000 tons, almost 60% higher than the 448,000 tons imported in 1967. This sharp rise probably was accounted for by a significant increase in aircraft inventory, but increased consumption in the civilian sector and the allocation of larger quantities of petroleum to storage were also significant factors. By 1971, imports from the USSR were an estimated 850-900,000 tons, compared to 770,000 and 840,000 tons in 1969 and 1970, respectively. No data are available for 1972.

5. Imports of petroleum normally have moved by rail from the USSR to North Korea. In earlier years most oil imports came via Manchouli through China to North Korea. By 1966, however, the bulk of the rail shipments probably moved over the single rail line that connects the USSR directly with northeastern North Korea. In the latter part of 1968, the Soviets began to move some petroleum from Soviet Far East ports to North Korea on small Soviet tankers: these shipments amounted to about 1,500 tons in 1968; 8,000 tons in 1969; 40,000 tons in 1970; and 15-20,000 tons in 1971. Most, if not all of these deliveries have been to the port of Nampo, on the west

coast. The use of tankers to move petroleum imports from the USSR is believed to be an effort to relieve some of the burden on rail facilities.

6. In 1970 North Korea made its first large purchases of petroleum products from the Free World, largely India and Kuwait: previous imports had consisted of occasional small quantities of lubricating oils. Approximately 86,000 tons of petroleum products were imported from Free World countries in 1970; in 1971 imports were approximately 60,000 tons. These imports probably are motivated primarily by a desire to diversify sources of supply and to expand North Korea's influence in the international community. Petroleum product imports from Free World countries and the USSR probably declined in 1972, as China expanded its exports to North Korea from approximately 45,000 tons in 1971 to approximately 200,000 tons the following year. It appears that a large share of North Korea's crude oil (and thus total petroleum) imports, for the next few years at least, will come from China.

North Korea Imports of Petroleum Products

(Metric tons)

	From: <u>USSR</u>	<u>Other</u>	<u>Total</u>
1967	448,000	Negligible	448,000
1968	714,000	Neg.	714,000
1969	770,000	Neg.	770,000
1970	840,000	115,000	955,000
1971	900,000	100,000	1,000,000
1972	Not available	N.A.	N.A.